

DEPARTMENT OF REVENUE

FINANCIAL SUMMARY

	FY 2004 EXPENDITURE	FY 2005 APPROPRIATION	FY 2006 REQUEST	GOVERNOR RECOMMENDS FY 2006
Division of Administration	\$ 15,645,884	\$ 17,669,942	\$ 7,465,304	\$ 7,505,872
Division of Taxation	39,605,220	44,303,613	41,104,162	41,361,988
Division of Motor Vehicle and Drivers Licensing	34,284,358	36,666,652	2,829,903	2,837,885
State Tax Commission	2,738,528	2,862,088	2,862,088	2,888,090
Distributions	219,189,806	238,137,888	283,757,558	283,757,558
State Lottery Commission	142,579,268	119,202,305	119,202,305	119,270,231
DEPARTMENTAL TOTAL	\$ 454,043,064	\$ 458,842,488 *	\$ 457,221,320	\$ 457,621,624
General Revenue Fund	69,387,674	90,400,447	118,259,351	118,573,293
Federal Funds	5,771,302	9,001,789	7,644,994	7,647,174
Child Support Enforcement Collection Fund	2,397,774	2,621,930	2,621,930	2,622,152
Health Initiatives Fund	48,822	53,829	53,829	54,276
Division of Aging Elderly Home				
Delivered Meals Trust Fund	14,274	22,204	22,204	22,318
DOR Technology Upgrade Fund	0	0	1	1
Petroleum Storage Tank Insurance Fund	23,146	25,169	25,169	25,409
Motor Vehicle Commission Fund	722,181	1,022,339	1,022,339	1,027,994
Conservation Commission Fund	546,215	710,876	539,158	544,047
Department of Revenue Information Fund	920,778	988,916	988,916	993,310
State Highways and Transportation				
Department Fund	43,129,190	46,760,232	18,803,672	18,803,672
Lottery Enterprise Fund	142,579,268	119,202,305	119,202,305	119,270,231
Petroleum Inspection Fund	30,760	32,452	32,452	32,747
Motor Fuel Tax Fund	188,471,680	188,000,000	188,000,000	188,000,000
Department of Revenue Specialty Plate Fund	0	0	5,000	5,000
Full-time equivalent employees	2,071.37	2,107.70	1,891.20	1,891.20

* Does not include \$176,250 recommended in the Fiscal Year 2005 Supplemental Appropriations, including \$160,000 general revenue. See the Supplemental section of the Missouri Budget for details regarding the Department of Revenue supplemental appropriations.

POLICY SUMMARY

Governor Blunt's Fiscal Year 2006 budget provides a total of \$457.6 million for the Department of Revenue. The department serves as the primary revenue collection agency for the State of Missouri. It strives to ensure that all taxes and fees owed to the state are paid, taxpayers are served conscientiously and efficiently, and revenues are collected at minimal administrative expense. The core functions provided by the Department of Revenue include:

- Preparing tax forms.
- Processing tax forms, returns, associated payments, and refunds.
- Titling and registering motor vehicles.
- Licensing drivers.
- Investigating instances of suspected tax or fee avoidance.

In November 2004, Missouri voters approved the transportation ballot initiative known as Constitutional Amendment No. 3. The amendment limits the amount of highway funds the Department of Revenue may receive to the actual cost of collections of highway-related taxes and fees, or three percent of a particular tax or fee type, whichever is less. Any remaining collection costs for highway-related revenues must be borne by general revenue. In order to minimize the amount of general revenue needed while ensuring that important highway-related functions of the department are performed efficiently and effectively, the Governor recommends the following measures.

- Closing the department's 11 motor vehicle and drivers licensing branch offices, which will be replaced by fee offices. This will save \$5.1 million and result in elimination of 194 staff.
- Cutting 22.5 staff to streamline service delivery, resulting in savings of \$1.4 million.

DEPARTMENT OF REVENUE

POLICY SUMMARY (Continued)

The Department of Revenue will expand cost-cutting efforts under Governor Blunt's leadership. In Fiscal Year 2006, the department will:

- Work closely with the Internal Revenue Service to develop and implement an electronic filing mechanism for corporate income tax by calendar year 2006. Filing electronically minimizes calculation errors, which constitute the majority of mistakes on tax returns. Minimizing these errors will allow the department to process returns more efficiently.
- Enhance its current web site to allow individual and business customers the ability to pay their outstanding tax debt in installments via the Internet. The self-service installment agreement gives taxpayers greater flexibility to become tax compliant. They will have a convenient mechanism to initiate installment agreements that suit their circumstances.
- Expand the 2D Barcode application to allow more forms/returns to be processed through a scanning mechanism, thus eliminating the need for key entry of those particular forms or returns.

Some performance measures the Department of Revenue uses to evaluate its goal of efficiently serving Missourians follow:

	2002	2003	2004
Average number of days to deposit individual income tax payments:			
- Pre April 15	.46	.48	.49
- Post April 15	5.50	3.50	2.50
Delinquent individual income taxes collected (millions)	\$67.0	\$73.0	\$85.5
Delinquent business taxes collected (millions)	\$118.3	\$135.9	\$117.8

DEPARTMENT OF REVENUE

DIVISION OF ADMINISTRATION

The Division of Administration works in unison with the operational divisions in support of their roles of tax collection, titling and registering vehicles, and licensing drivers. The director's office supervises all operations of the department and coordinates the preparation of the department's budget request. The general counsel's office advises the director on legal matters and represents the director in legal proceedings. The office of legislation and regulation develops and tracks the department's legislation and estimates the fiscal impact of legislation that relates to the department. Internal audit reviews and evaluates the department's accounting controls and appraises the effectiveness and efficiency of the use of department resources. Financial and general services provides budgetary, accounting, procurement, cash management, stores, receiving, mail operations, warehousing, archival, delivery, motor pool, and facility services to the department. Human resource services and development is responsible for recruitment, training, employee relations' services, and payroll processing. The technology services bureau provides system development and support, production control, technical training, telecommunication, and database administration throughout the department. The criminal investigation bureau investigates suspected tax, motor vehicle, dealers, and driver's license fraud, and prepares cases for prosecution.

Fiscal Year 2006 Governor's Recommendations

- \$73,000 for postage to implement legislation.
- \$1 DOR Technology Upgrade Fund on an open-ended basis to improve utilization of technology resources.
- \$40,568 for pay plan, including \$35,633 general revenue.
- \$73,188 and two staff reallocated from the Division of Taxation.
- (\$10,350,827) State Highways and Transportation Department Fund core reduction from the Fiscal Year 2005 appropriation level.

DIVISION OF TAXATION AND COLLECTION

The Division of Taxation and Collection is organized by product type allowing each function to be managed as part of a complete product (e.g., individual income tax, sales tax, etc.). Each product manager is accountable for a product from beginning to end. The division has support functions to facilitate administration of these products. Collection activities include account management, lien filing, third-party collection referrals, tax clearances, and debt offsets. The division has nine in-state field offices (St. Louis, Kansas City, Springfield, Jefferson City, Joplin, St. Joseph, Columbia, Hannibal, and Cape Girardeau) that handle taxpayer assistance inquiries. Tax auditors are stationed in the nine in-state offices and four out-of-state offices (Chicago, Dallas, Los Angeles, and New York) to foster compliance with Missouri tax laws.

Fiscal Year 2006 Governor's Recommendations

- \$5,000 to implement legislation.
- \$257,826 for pay plan, including \$251,159 general revenue.
- (\$2,918,181) State Highways and Transportation Department Fund core reduction from the Fiscal Year 2005 appropriation level.
- (\$213,082) core reduction for one-time expenditures.
- (\$73,188) and (two) staff reallocated to the Division of Administration.

DIVISION OF MOTOR VEHICLE AND DRIVERS LICENSING

The Division of Motor Vehicle and Drivers Licensing is responsible for administering and enforcing vehicle registration and titling and driver license regulations. The driver and vehicle services bureau titles and registers motor vehicles and watercraft, licenses motor vehicle dealers and boat dealers, and collects state and local sales/use tax and other vehicle fees. The driver and vehicle services bureau also suspends, revokes, and disqualifies driver and non-driver licenses, and administers the mandatory automobile liability insurance program. The customer assistance bureau oversees 182 field offices that provide driver licensing and motor vehicle titling and registration services to Missourians. The field offices also issue and renew operator and commercial driver licenses, non-driver licenses, and permits.

Fiscal Year 2006 Governor's Recommendations

- \$988,105 federal funds to secure grants.
- \$5,000 Department of Revenue Specialty Plate Fund to implement legislation.
- \$7,982 for pay plan, including \$1,148 general revenue.
- (\$32,484,954) State Highways and Transportation Department Fund core reduction from the Fiscal Year 2005 appropriation level.
- (\$2,344,900) federal funds core reduction for one-time expenditures.

DEPARTMENT OF REVENUE

STATE TAX COMMISSION

The State Tax Commission is a quasi-judicial administrative agency created by the Missouri Constitution to perform six basic functions. These functions are: to equalize inter- and intra-county assessments; conduct de novo judicial hearings regarding valuation and classification appeals from local boards of equalization; formulate and implement statewide assessment policy and procedures to comport with statutory and constitutional mandates; supervise local assessing officials and local assessment programs to ensure compliance with statewide requirements; conduct ratio studies to determine the assessment level in each county and to measure the quality of the assessments; and assess the distributable property of railroads and public utilities.

Fiscal Year 2006 Governor's Recommendations

- \$26,002 for pay plan.

**DEPARTMENT OF REVENUE
DISTRIBUTIONS**

FINANCIAL SUMMARY

	FY 2004 EXPENDITURE	FY 2005 APPROPRIATION	GOVERNOR RECOMMENDS FY 2006
Prosecuting Attorneys and Collection Agencies	\$ 2,580,313	\$ 2,728,000	\$ 2,580,000
County Filing Fees	172,596	200,000	450,000
Contingency Fees for Collection Enhancements	1,950,000	9,500,000	3,500,000
Contract Auditors	0	400,000	400,000
Tax Data Matching for Collection Enhancements	0	7,600,000	7,600,000
State Share of Assessment Maintenance Costs	14,985,668	18,785,668	18,785,668
Certification Compensation	84,724	77,112	77,112
Motor Fuel Tax Distribution to Cities and Counties	188,471,680	188,000,000	188,000,000
County Stock Insurance Tax	0	0	1,000,000
Debt Offset For Tax Credits Transfer	0	0	1,000
Debt Offset Transfer	10,577,417	10,512,884	10,512,884
Transportation Revenue Collection Fund Transfer	0	0	50,507,670
Income Tax Refund Designations	367,408	334,224	343,224
TOTAL	\$ 219,189,806	\$ 238,137,888	\$ 283,757,558
General Revenue Fund	30,683,517	48,959,900	76,953,886
Conservation Commission Fund	34,609	171,718	0
State Highways and Transportation			
Department Fund	0	1,006,270	18,803,672
Motor Fuel Tax Fund	188,471,680	188,000,000	188,000,000

PAYMENTS TO PROSECUTING ATTORNEYS AND COLLECTION AGENCY FEES

Section 136.150, RSMo, provides for payment of a collection fee of 20 percent of delinquent taxes, licenses, or fees recovered on behalf of the state by circuit or prosecuting attorneys. The collection fee is deposited in the county treasury with one-half of the fee for use by the attorney's office and one-half to be expended as the county determines. This incentive program provides additional resources to counties and a five-to-one benefit/cost ratio to the state.

Section 140.850, RSMo, authorizes the Department of Revenue to use commercial collection agencies to collect delinquent taxes owed by resident and non-resident taxpayers (individuals and businesses). The statutes permit payment of a collection fee not to exceed 25 percent of the amount collected.

Fiscal Year 2006 Governor's Recommendations

- (\$148,000) core reduction from the Fiscal Year 2005 appropriation level.

COUNTY FILING FEES

The Department of Revenue is authorized to file tax liens on property owned by taxpayers that are delinquent in income tax or sales/use tax. County recorders charge the Department of Revenue a fee of \$3.00 for the filing of each tax lien and a fee of \$1.50 for each release of a tax lien filed on property owned by taxpayers that are delinquent in income tax or sales/use tax.

Fiscal Year 2006 Governor's Recommendations

- \$250,000 for increased filings due to the completion of the computer-assisted collection system.

CONTINGENCY FEES FOR COLLECTION ENHANCEMENTS

The Department of Revenue contracted with a private firm to generate additional collections through enhancements to its Computer-Assisted Collection System (CACS). The vendor will be paid only to the extent that the enhancements generate additional revenue in excess of an agreed upon baseline amount. The CACS upgrade will be completed in the first quarter of Fiscal Year 2006.

Fiscal Year 2006 Governor's Recommendations

- (\$6,000,000) core reduction from the Fiscal Year 2005 appropriation level, including (\$4,822,012) general revenue.

DEPARTMENT OF REVENUE

DISTRIBUTIONS (Continued)

CONTRACT AUDITORS

The Department of Revenue contracted with an independent auditing firm for the processing of some business/corporate tax audits. The department does not have sufficient personnel to handle the research, analysis, and completion of all corporate tax audits. Contract auditors will identify new audit leads and complete additional tax audits.

Fiscal Year 2006 Governor's Recommendations

Continue funding at the current level.

TAX DATA MATCHING FOR COLLECTION ENHANCEMENTS

The tax data matching system allows the department to enhance the collection process by focusing on habitually delinquent accounts and those that avoid tax filing and payment to the state.

Fiscal Year 2006 Governor's Recommendations

Continue funding at the current level.

STATE SHARE OF ASSESSMENT MAINTENANCE COSTS

The state reimburses a portion of the costs and expenses for maintaining assessments by the county assessors and the St. Louis City assessor.

Fiscal Year 2006 Governor's Recommendations

Continue funding at the current level.

CERTIFICATION COMPENSATION

The state provides quarterly compensation to assessors, except those in first-class charter counties, who maintain an education certification with the State Tax Commission.

Fiscal Year 2006 Governor's Recommendations

Continue funding at the current level.

MOTOR FUEL TAX DISTRIBUTION TO CITIES AND COUNTIES

Article IV, Section 30(a)(2), Constitution of Missouri, requires 15 percent of the net proceeds from the Motor Fuel Tax collections be allocated to the incorporated cities, towns, and villages of the state to assist in the maintenance of streets and highways.

Article IV, Section 30(a)(1), Constitution of Missouri, requires that 10 percent of the net proceeds from Motor Fuel Tax collections be distributed to the counties to assist in the maintenance of county roads, highways, and bridges. On August 4, 1992, voters approved Constitutional Amendment No. 8 to require that 15 percent of the net proceeds resulting from any increase in the Motor Fuel Tax rate over the rate in effect on March 31, 1992, be distributed to the counties to assist in the maintenance of county roads, highways, and bridges.

Fiscal Year 2006 Governor's Recommendations

Continue funding at the current level.

DEPARTMENT OF REVENUE

DISTRIBUTIONS (Continued)

COUNTY STOCK INSURANCE

The Department of Revenue uses this appropriation to meet the apportionment requirements for the County Stock Insurance Tax required by Section 148.330, RSMo, while holding school districts and counties harmless to reductions from tax credits.

Fiscal Year 2006 Governor's Recommendations

- \$1,000,000 to implement HB 1182 (2004).

DEBT OFFSET FOR TAX CREDITS

SB 1099 (2004) requires that tax credit applicants must apply any award to any delinquent income, sales, use, or insurance taxes. After applying all credits toward any delinquencies, the applicant can be issued any remaining credits. The Department of Revenue uses this appropriation to hold harmless local tax jurisdictions for local sales tax delinquencies.

Fiscal Year 2006 Governor's Recommendations

- \$1,000 to implement SB 1099 (2004).

DEBT OFFSET TRANSFER

Chapter 143, RSMo, provides a mechanism to offset debts owed to the state against tax refunds payable to the debtor. The Department of Revenue transfers to the Office of State Treasurer the amount of the debt certified to be owed to a state agency in an amount not exceeding the tax refund claimed. Any amount in excess of the debt is forwarded to the taxpayer. Upon settlement of the claim through the established administrative hearings process, the escrow funds are returned to the state agency and/or the payee.

Fiscal Year 2006 Governor's Recommendations

Continue funding at the current level.

TRANSPORTATION REVENUE COLLECTION FUND TRANSFER

Constitutional Amendment No. 3 (2004) limits the Department of Revenue to three percent of highway fund collections or the actual cost of collection, whichever is less, to fund highway-related collection activities. The three percent limitation will not provide sufficient funding to continue important highway-related services provided by the department, so additional general revenue funding will be required. This will be accomplished through a fund transfer mechanism. This transfer, in conjunction with creation of the Transportation Revenue Collection Fund, will facilitate expenditure reviews to ensure highway funds are used appropriately.

Fiscal Year 2006 Governor's Recommendations

- \$50,507,670 transferred to the Transportation Revenue Collection Fund, including \$31,703,998 general revenue.

DEPARTMENT OF REVENUE

DISTRIBUTIONS (Continued)

INCOME TAX CHECK-OFF REFUND DESIGNATIONS

State statutes permit individuals and corporations to contribute a portion of any income tax refund that they are owed to five separate state trust funds or nine separate charitable trust funds. The five state trust funds include the Children's Trust Fund (Section 210.174, RSMo); the Division of Aging Elderly Home Delivered Meals Trust Fund (Section 660.078, RSMo); the Veterans' Trust Fund (Section 42.140, RSMo); the Missouri National Guard Trust Fund (Section 41.215, RSMo); and the Workers Memorial Fund (Section 143.1025, RSMo). The nine charitable funds (Section 143.605 RSMo) include: the American Cancer Society, Heartland Division, Inc., Fund; the ALS Lou Gehrig's Disease Fund; the American Lung Association of Missouri Fund; the Muscular Dystrophy Association Fund; the Arthritis Foundation Fund; the American Diabetes Association Gateway Area Fund; the American Heart Association Fund; the March of Dimes Fund; and the National Multiple Sclerosis Society Fund. The amounts designated by taxpayers for distribution to the five trust funds are transferred from the General Revenue Fund.

Fiscal Year 2006 Governor's Recommendations

- \$9,000 for transfer to various income tax check-off funds.

DEPARTMENT OF REVENUE

STATE LOTTERY COMMISSION

The Missouri State Lottery was established by voter approval of Constitutional Amendment No. 5 on November 6, 1984. On August 2, 1988, voters approved Constitutional Amendment No. 3 to revise the lottery prize structure and certain promotional restrictions.

Fiscal Year 2006 Governor's Recommendations

- \$67,926 Lottery Enterprise Fund for pay plan.

	FY 2004 EXPENDITURE	FY 2005 APPROPRIATION	GOVERNOR RECOMMENDS FY 2006
Operating Expense			
Personal Service	\$ 6,339,421	\$ 6,792,627	\$ 6,860,553
Expense and Equipment	34,626,077	32,409,678	32,409,678
Prizes	<u>101,613,770</u>	<u>80,000,000</u>	<u>80,000,000</u>
TOTAL			
Lottery Enterprise Fund	\$ 142,579,268	\$ 119,202,305	\$ 119,270,231
Full-time equivalent employees	179.68	176.50	176.50

LOTTERY ENTERPRISE FUND TRANSFER

Section 39(b) of Article III of the Missouri Constitution provides that a minimum of 45 percent of moneys received from the sale of lottery tickets shall be paid as prizes. On August 4, 1992, voters approved Constitutional Amendment No. 11 to dedicate net lottery proceeds to fund public institutions of elementary, secondary, and higher education.

Fiscal Year 2006 Governor's Recommendations

- \$215,000,000 Lottery Enterprise Fund transfer to the Lottery Proceeds Fund.

	FY 2004 EXPENDITURE	FY 2005 APPROPRIATION	GOVERNOR RECOMMENDS FY 2006
Lottery Enterprise Fund	\$ 230,318,233	\$ 208,600,000	\$ 215,000,000